

ICAEW KNOW-HOW
AUDIT AND ASSURANCE FACULTY



*Auditing accounting
estimates - property
valuations*

John Selwood

ISA 540 (Revised) Accounting estimates

New standard

- Periods commencing 15 December 2019



ISA 540 (Revised) Accounting Estimates

Don't forget

Spectrum of inherent risk

Inherent risk factors – complexity, subjectivity, estimation uncertainty and others

Enhanced risk assessment procedures

Auditor's decisions about controls

Objectives-based work effort – methods, data and assumptions

Professional scepticism

Stand back

Disclosures

Communications

Example – investment property valuation



Property company

- The company owns an office building with several long term tenants
- The company is heavily geared with bank borrowing and bank covenants

Example – property valuation

Understand
the entity

Business strategy

GAAP – FRS 102

External professional valuation

Prior
periods
review

Look at past trends in the valuation

If there were a number of properties,
look at prices achieved on sale.

Example – property valuation

SEPARATE
risk
assessments

Inherent risk

Subjectivity
Complexity
Estimation uncertainty

Don't forget fraud risk
Consider spectrum of risk

Control risk

Understand internal controls

If no testing of controls: Risk
cannot be low

Note: ISA is specific on the nature of audit procedures



The auditor's further audit procedures shall include one or more of the following approaches:

- Obtaining audit evidence from events occurring up to the date of the auditor's report
- Testing how management made the accounting estimate
- Developing an auditor's point estimate or range

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Example – property valuation

Approach

Testing of how management made the accounting estimate:

External valuation by professional valuer on a yield basis

Valuer & valuation?

Is the valuer qualified etc etc.....

Is it the right basis? Similar properties? DRC?

Was it carried out properly?

How was the yield derived?

Example – property valuation

Approach Developing an auditor's point estimate or range

Yield Look at third party market data - preferably from multiple sources

The auditor should develop their own understanding of how the yield basis should be applied

